350

Agriculture

Budget function 350 covers programs administered by the Department of Agriculture, including such activities as agricultural research and the stabilization of farm incomes through loans, subsidies, and other payments to farmers. CBO estimates that discretionary outlays for function 350 will total $4.7 billion in 2001, and mandatory outlays will total $19.0 billion—a 40 percent decline from the record high of $32.0 billion last year but still the second highest level since 1987. Much of that decline occurs because $13 billion in emergency appropriations for 2000 are not continued in later years of CBO's baseline. Thus far, $3.6 billion in similar emergency appropriations have been provided for 2001. Under current budgetary practices, such emergency funds are considered one-time additions to mandatory spending. Spending on core farm programs is estimated to remain high in 2001 because of continuing low crop prices and weak global demand.

Federal Spending, Fiscal Years 1990-2001 (In billions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Estimate 2001
Budget Authority (Discretionary)	2.7	3.1	4.5	4.3	4.4	4.0	4.2	4.2	4.3	4.5	4.5	4.8
Outlays												
Discretionary	2.6	2.8	4.2	4.3	4.4	4.0	4.1	4.1	4.3	4.6	4.7	4.7
Mandatory	9.3	12.4	11.0	16.1	10.7	5.8	5.0	5.0	7.9	18.4	32.0	19.0
Total	12.0	15.2	15.2	20.4	15.0	9.8	9.2	9.0	12.2	23.0	36.6	23.6
Memorandum:												
Annual Percentage Change in Discretionary Outlays		6.6	49.2	1.9	3.1	-8.5	3.1	-1.5	6.3	5.5	1.9	0.2

350-01 Reduce Federal Support for Agricultural Research and Extension Activities

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	198	129
2003	198	176
2004	198	193
2005	198	195
2006	198	195
2002-2006	990	888
2002-2011	1,980	1,863
Relative to Inflated Appropriations		
2002	204	133
2003	210	185
2004	215	208
2005	220	215
2006	226	220
2002-2006	1,075	961
2002-2011	2,296	2,148

SPENDING CATEGORY:

Discretionary

RELATED OPTIONS:

270-01, 270-02, 270-03, 270-10, and 350-04

The Department of Agriculture (USDA) conducts and supports agricultural research and education. In particular, the Agricultural Research Service, the department's internal research arm, focuses on maintaining and increasing the productivity of the nation's land and water resources, improving the quality of agricultural products and finding new uses for them, and improving human health and nutrition. The Cooperative State Research, Education, and Extension Service (CSREES) participates in a nationwide system for planning and coordinating the agricultural research and educational programs of state institutions and USDA. CSREES also takes part in the Cooperative Extension System, a national educational network that combines the expertise and resources of federal, state, and local partners. The Economic Research Service carries out economic and other social science research and analysis for public and private decisions about agriculture, food, natural resources, and rural areas.

The 2001 appropriations for those three USDA agencies total about $2.1 billion. Reducing the funding by 10 percent would save, over the 2002-2011 period, about $1.9 billion relative to the 2001 funding level and about $2.1 billion relative to that level adjusted for inflation.

Critics argue that federal funding for agricultural research may, in some cases, replace private funding. Moreover, federal funding for some extension activities under CSREES could be reduced without undercutting the agency's basic services to farmers. Such extension activities include the Nutrition and Family Education and Youth at Risk programs, whose funding totaled $67 million under the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act for Fiscal Year 2001.

Proponents of funding for research and extension activities argue that the programs play important roles in developing an efficient farm sector. Reducing federal funding could compromise the sector's future development and its competitiveness in world markets. If the private sector assumed the burden of funding, then agricultural research—which contributes to an abundant, diverse, and relatively inexpensive food supply for U.S. consumers—could decline. Moreover, some federal grants are used to improve the health of humans, animals, and plants by funding research that promotes better nutrition or more environmentally sound farming practices. Consequently, proponents contend that if federal funding was cut back, the public might have to bear some of that cost in higher prices, forgone innovations, reduced health, and environmental degradation.

350-02 Eliminate the Foreign Market Development Cooperator Program

	Savings (Millions of dollars) Budget Authority	Outlays
2002	19	19
2003	25	25
2004	28	28
2005	28	28
2006	28	28
2002-2006	128	128
2002-2011	268	268

SPENDING CATEGORY:

Mandatory

RELATED OPTIONS:

150-02, 350-06, 350-09, and 370-02

The Department of Agriculture (USDA) promotes exports and international activities through the programs of the Foreign Agricultural Service (FAS). In the Foreign Market Development Cooperator Program, FAS acts as a partner in joint ventures with "cooperators," such as agricultural trade associations and commodity groups, to develop markets for U.S. exports. Eliminating funding for that program would reduce outlays by $268 million over the 2002-2011 period.

The Foreign Market Development Cooperator Program, also known as the Cooperator Program, typically promotes generic products and basic commodities, such as grains and oilseeds, but it also covers some high-value products, such as meat and poultry. Some critics of the program argue that cooperators should bear the full cost of foreign promotions because the cooperators benefit from them directly. (How much return, in terms of market development, the Cooperator Program actually generates or the extent to which it replaces private expenditures with public funds is uncertain.) Some observers also cite the possibility of duplicative services because USDA provides funding for marketing through its Market Access Program and other activities.

Eliminating the Cooperator Program, however, could place U.S. exporters at a disadvantage in international markets, depending in part on the amount of support other countries provide to their exporters. Regarding the issue of duplicative services, some advocates note that the Cooperator Program is distinct from other programs in part because it focuses on services to trade organizations and technical assistance. People concerned about U.S. exports of generic products and basic commodities consider the program useful for developing markets that could benefit the overall economy.

350-03 Reinstate Assessments on Growers, Buyers, and Importers of Tobacco

	Savings (Millions of dollars) Budget Authority	Outlays
2002	8	8
2003	29	29
2004	30	30
2005	30	30
2006	30	30
2002-2006	127	127
2002-2011	277	277

SPENDING CATEGORY:

Mandatory

The federal government aids tobacco producers by supporting domestic tobacco prices well above world-market prices. To restrict the supply of tobacco and keep prices artificially high, the tobacco program includes import restrictions, acreage allotments and marketing quotas that limit the amount of tobacco that can be grown and marketed, and price support loans that allow growers to forfeit that tobacco (which is added to government stocks) rather than repay loans if market prices are below the support price.

Higher market prices benefit about 125,000 growers and 300,000 holders of marketing quotas and allotments. Some quota holders raise tobacco themselves, and some rent their quota to others. For producers, tobacco is an important source of income, particularly in some states. The value of the 1999 tobacco crop was estimated at $2.3 billion. The crop is produced in 16 states, and about two-thirds of its acreage lies in North Carolina and Kentucky.

Tobacco is a controversial crop because of the health hazards of smoking, so federal support for producers has also been controversial. The price support program has been modified over time to reduce its costs to taxpayers, even though it does nothing to encourage tobacco use. In fact, it raises the price of tobacco products to U.S. consumers, although by only a small amount. The Department of Agriculture has estimated that the program may increase the price of a pack of cigarettes by less than 2 cents.

Because tobacco prices are supported through supply restrictions, tobacco consumers—not taxpayers—pay most of the costs of growers' benefits. If everything worked as planned, the tobacco program would have no net cost to the government every year. But unexpected market events can lead, in some years, to substantial government outlays. To maintain the no-net-cost status of the program, growers and purchasers of tobacco generally have been required to contribute to funds that reimburse the government for the program costs (other than administrative costs) that do occur, although recent legislation has relaxed that requirement for some tobacco currently under loan.

Beginning in 1991, both growers and purchasers had to pay new assessments equal to 0.5 percent of the value of sales (for a total collection of 1 percent of sales). Those assessments were not devoted to program costs; rather, they were the tobacco program's contribution to reducing the costs of all federal farm programs and the budget deficit. Those assessments and a related one on imported tobacco ended after 1998. This option would reinstate the assessments beginning with the 2002 crop. Doing so would bring in receipts of $277 million over the 2002-2011 period.

Proponents of reinstating the assessments argue that the tobacco program gives growers substantial benefits and that the assessments let taxpayers share some of those benefits. Furthermore, recent legislation provided additional benefits to certain growers, so without additional revenue the program may lose its no-net-cost status. Opponents argue that the tobacco program costs the government little, that growers and purchasers already contribute toward those costs through paying taxes, and that the original rationale for the assessments has passed.

350-04 Eliminate Mandatory Spending for the Agricultural Research Activities of the Fund for Rural America and the Initiative for Future Agriculture and Food Systems

	Savings (Millions of dollars) Budget Authority	Outlays
2002	150	24
2003	150	66
2004	0	84
2005	0	69
2006	0	42
2002-2006	300	285
2002-2011	300	300

SPENDING CATEGORY:

Mandatory

RELATED OPTION:

270-01, 270-02, 270-03, 270-10, and 350-01

The Federal Agriculture Improvement and Reform Act of 1996 (FAIR) established the Fund for Rural America as a mandatory program to support rural communities nationwide. FAIR provided funds through fiscal year 2000. The Agricultural Research, Extension, and Education Reform Act of 1998 provided additional funds through 2003. Currently, $60 million is available for research activities of the Fund for Rural America for the 2002-2003 period.

In addition, the 1998 act created and provided mandatory funding for the Initiative for Future Agriculture and Food Systems as a competitive grant program supporting research, extension, and education activities in critical emerging areas. Administered by the Department of Agriculture's (USDA's) Cooperative State Research, Education, and Extension Service, the initiative was mandated to receive $480 million through fiscal year 2003 to target food genome research, food safety, human nutrition, alternative uses for agricultural commodities, biotechnology, and precision agriculture. Eliminating the research activities of both the Fund for Rural America and the initiative would reduce direct spending by $300 million from 2002 to 2011.

Mandatory funding is usually reserved for entitlement programs, for which funding needs may be too immediate or undisputed to warrant annual review by the Congress in the appropriation process. Critics of the program argue that agricultural research is hardly an entitlement and that research should be left where it always has been: as part of USDA's discretionary funding budget. Because providing the programs with mandatory funds may avoid the spending jurisdiction and annual review of the Appropriations Committees, critics argue that the programs do not necessarily provide funding for intended activities. In addition, they argue, existing discretionary programs can meet the goals of the agricultural research programs. Furthermore, they contend that federal funding for agricultural research may, in some cases, replace private funding.

Supporters of the programs argue that changes in agriculture have increased the need for research funding beyond that available through traditional discretionary programs. They argue that eliminating this research could compromise U.S. agriculture's future development and its competitiveness in world markets at a time when changes in commodity programs make producers' economic viability more dependent than before on world markets. They also argue that the programs are necessary to improve agricultural productivity, environmental quality, and farm income.

350-05 Limit Future Enrollment of Land in the Department of Agriculture's Conservation Reserve Program

	Savings (Millions of dollars) Budget Authority	Outlays
2002	77	77
2003	143	143
2004	250	250
2005	273	273
2006	306	306
2002-2006	1,049	1,049
2002-2011	7,632	7,632

SPENDING CATEGORY:

Mandatory

The Conservation Reserve Program promotes soil conservation, improves water quality, and provides wildlife habitat by removing land from active agricultural production. Landowners contract with the program to keep land out of production, usually for a 10-year period, in exchange for annual rental payments. Such land is referred to as "enrolled" in the program. The federal government also pays part of what farmers spend to establish approved cover crops on the land. The U.S. Department of Agriculture's (USDA's) Commodity Credit Corporation funds the program and spends about $1.5 billion per year on it. The program now has roughly 30 million acres enrolled; the law limits enrollment to a total of 36.4 million acres. The Congressional Budget Office’s baseline assumes that future net enrollments of land will reach the limit by 2009. Stopping new enrollments beginning October 1, 2001, would reduce spending by $7.6 billion over the 2002-2011 period.

Some critics of the Conservation Reserve Program see it as corporate welfare—unnecessarily and inefficiently supporting farm income. Others see it as an expensive and poorly focused conservation program and believe that other uses of the money would yield greater environmental benefits. Still other critics worry about the loss of economic activity in areas where much cropland is retired. The demand for seed, fertilizer, and other farm supplies drops in such areas, hurting rural communities.

The Conservation Reserve Program enjoys widespread support, however. Landowners appreciate the payments, which often exceed the profits from continued agricultural production and are more certain. Conservationists and environmentalists recognize the program's benefits and note USDA's plans to accept the most environmentally sensitive land in future enrollments. Those plans involve special provisions for enrolling land devoted to the most effective conservation practices such as the use of filter strips, grass waterways, and riparian buffers. Studies have indicated that those and several other practices yield high returns per dollar spent in enhanced wildlife habitat, improved water quality, and reduced soil erosion. Many people, including critics of the program, recognize the need to take at least some environmentally sensitive land out of production over the long term.

350-06 Eliminate Attaché Positions in the Foreign Agricultural Service

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	29	20
2003	39	33
2004	39	38
2005	39	39
2006	39	39
2002-2006	185	169
2002-2011	380	364
Relative to Inflated Appropriations		
2002	30	20
2003	42	35
2004	43	42
2005	45	45
2006	46	46
2002-2006	206	188
2002-2011	458	437

SPENDING CATEGORY:

Discretionary

RELATED OPTIONS:

150-02, 350-02, 350-09, and 370-02

U.S. agricultural attachés, located at 97 offices worldwide, provide U.S. agricultural producers and traders with information on foreign governments' policies, supply and demand conditions, commercial trade relationships, and market opportunities. That information is an integral part of the market forecasting and analysis system of the U.S. Department of Agriculture (USDA). The attachés, employed by the Foreign Agricultural Service of USDA, also represent that department in disputes and negotiations with foreign governments on agricultural issues. The attaché positions were developed to promote U.S. commodities and to help U.S. farmers, processors, distributors, and exporters adjust their operations and practices to meet world conditions. This option would eliminate the attaché positions and reduce outlays over the 2002-2011 period by $364 million relative to the 2001 funding level and $437 million relative to that level adjusted for inflation.

Opponents of the attaché positions argue that the federal government should not be collecting and distributing information that directly aids large private traders of agricultural commodities and products. Instead, they argue, private firms could collect such information. Personnel from the Department of State or Commerce could assume the attachés' other functions. Although trade is vitally important to U.S. agriculture, opponents argue that the industry no longer warrants the special treatment it receives.

Supporters of the agricultural attaché positions contend, however, that because attachés represent the U.S. government, they have more access to information than representatives of private firms would have. Supporters also maintain that if agricultural producers and traders do not receive quality agricultural information in a timely manner, the sector's responsiveness to changes in world demand for U.S. products could be compromised. Finally, USDA uses information collected by attachés in conducting its market and policy analyses. If the attachés no longer provided such information, USDA might have to purchase it or do without—which could weaken the analyses.

350-07 Reduce the Reimbursement Rate Paid to Private Insurance Companies in the Department of Agriculture's Crop Insurance Program

	Savings (Millions of dollars) Budget Authority	Outlays
2002	56	50
2003	58	58
2004	60	60
2005	61	61
2006	65	64
2002-2006	300	293
2002-2011	637	628

SPENDING CATEGORY:

Mandatory

The Federal Crop Insurance Program protects farmers from losses caused by droughts, floods, pests, and other natural disasters. Insurance policies that farmers buy through the program are sold and serviced by private insurance firms, which receive an administrative cost reimbursement according to the total amount of insurance premiums they handle. Firms also share underwriting risk with the federal government and can gain or lose depending on the value of crop losses relative to the claims made. Overall, the companies typically gain.

The General Accounting Office (GAO) has widely studied the crop insurance program, particularly the amount paid to the firms that service and sell the insurance policies. In a 1997 study, GAO concluded that the amount the program had paid those firms historically exceeded the reasonable expenses of selling and servicing the crop insurance. Partly on the basis of that information, the 105th Congress cut the reimbursement rate for the benchmark crop insurance plan from 27 percent of premiums to 24.5 percent (with comparable reductions for other plans). Crop insurance legislation passed by the 106th Congress did not change that rate. This option would further reduce the benchmark rate to 22.5 percent, resulting in savings of $628 million over the 2002-2011 period.

Arguments for cutting the reimbursement rate hinge on the belief that the 105th Congress could have cut the reimbursement rate more deeply without substantially affecting the quantity or quality of services provided to farmers. In addition to relying on GAO's analysis, proponents of further cuts point to the dramatic expansion in business that followed enactment of the Federal Crop Insurance Reform Act of 1994. Crop insurance in force for 2000 totaled about $34 billion, which is about three times the level of the early 1990s. Total premiums grew correspondingly, but because of economies of scale, the costs of selling and servicing the policies probably grew by less. Further expansion of business is expected under provisions of the Agricultural Risk Protection Act of 2000 that significantly increase government subsidies for farmers' premiums—especially at higher coverage levels with higher premiums. Therefore, proponents argue, the program could tolerate further cuts. Finally, even if cuts caused firms to curtail some services to farmers, proponents claim that the results would not be catastrophic or irreversible.

The crop insurance industry argues that further cuts would impair its ability to sell and service insurance and threaten farmers' access to insurance. If farmers lacked insurance, the industry argues, the Congress would be more likely to resort to expensive, special-purpose relief programs when disaster struck, negating any apparent savings from cutting the reimbursement rate. Moreover, crop prices lower than those assumed in GAO's 1997 study reduce the total premiums (and reimbursements) but hardly affect insurance companies' costs. Cutting reimbursement rates would further reduce companies' profits, making it harder for them to maintain the services they now provide to farmers.

350-08 Eliminate Public Law 480 Title I Sales and Limit the Secretary of Agriculture's Authority

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	135	71
2003	135	125
2004	135	132
2005	135	132
2006	135	132
2002-2006	675	591
2002-2011	1,350	1,249
Relative to Inflated Appropriations		
2002	138	72
2003	141	129
2004	143	138
2005	146	141
2006	149	144
2002-2006	717	625
2002-2011	1,506	1,386

SPENDING CATEGORY:

Discretionary

RELATED OPTIONS:

150-03-A, 150-03-B, and 150-04

The U.S. Agricultural Trade Development and Assistance Act of 1954 (Public Law 480) was enacted to promote commercial exports of surplus agricultural commodities, foster foreign markets, and aid developing countries. The law included commodity sales for foreign currencies, subsidized credit, and grants.

In the 45 years since the law was passed, the P.L. 480 program may have become obsolete and inefficient. This option would eliminate sales under title I of the act beginning in 2001. It would also constrain authority provided by the Commodity Credit Corporation Charter Act of 1948 and other laws that allow the Secretary of Agriculture to use funds from the Commodity Credit Corporation or other sources to purchase and ship U.S. commodities abroad. Such constraints are necessary, some analysts believe, because without them, the Secretary of Agriculture could offset the effects of a cut in the program (a discretionary one) by using the Commodity Credit Corporation’s funds or other funds (mandatory spending) to purchase and ship agricultural commodities. In fact, the Secretary used such authority in 1999 to provide more than $1 billion of food aid to Russia and other countries and in 2000 to establish a global school lunch program. Title II of P.L. 480 and section 416 of the Agricultural Act of 1949, which fund humanitarian and emergency feeding programs, would not be directly affected by this option.

This option would reduce outlays over the 2002-2011 period by $1.25 billion relative to the 2001 funding level and $1.39 billion relative to that level adjusted for inflation. The program's effectiveness in promoting agricultural exports is questionable for two reasons: exports under title I are a small portion of total U.S. agricultural exports, and the countries currently receiving those commodities are unlikely to become commercial customers. In fact, countries that receive commodities under title I are typically those in which the United States has a security or foreign policy interest rather than those likely to become commercial customers in the near term.

Providing assistance to developing countries is also a goal of the program, but critics say it may not be an efficient use of U.S. resources. Many commodities that foreign countries buy with P.L. 480 assistance are resold to generate local currency. Those funds are used in turn to support local budgets and local development. But increased supplies of food may lower prices and discourage local investment in agriculture, lower rural employment and income, and discourage the development of local stockpiles.

Supporters of title I argue that the program is a flexible, fast means of providing assistance to friendly countries. They also note that the program reduces the likelihood that agricultural surpluses will depress prices in the United States, and they stress the program’s humanitarian benefits: U.S. agricultural products are exported, and hungry people are fed.

350-09 Eliminate the Market Access Program

	Savings (Millions of dollars) Budget Authority	Outlays
2002	5	5
2003	73	73
2004	90	90
2005	90	90
2006	90	90
2002-2006	348	348
2002-2011	798	798

SPENDING CATEGORY:

Mandatory

RELATED OPTIONS:

150-02, 350-02, 350-06, and 370-02

The Market Access Program (MAP), formerly known as the Market Promotion Program, was authorized under the 1990 Food, Agriculture, Conservation, and Trade Act to assist U.S. exporters of agricultural products. The program has been used to counter the effects of unfair trading practices abroad, but the Uruguay Round Agreements Act of 1994 eliminated the requirement that it be used for such purposes. Payments are made to partially offset the costs of market building and product promotion conducted by trade associations, commodity groups, and some profit-making firms. On the basis of current law, the Congressional Budget Office assumes that $90 million will be allocated annually for the program. Eliminating MAP would reduce outlays by $798 million over the next 10 years.

The program has been used to promote a wide range of mostly high-value products, including fruit, tree nuts, vegetables, meat, poultry, eggs, seafood, and wine. About 40 percent of MAP's funding goes to promote brand-name products. The 1996 farm bill prohibits direct assistance from MAP to foreign companies to promote foreign-produced products or to companies not recognized as small businesses under the Small Business Act, except for cooperatives and nonprofit trade associations.

Some critics of the program argue that participants should bear the full cost of foreign promotions because they benefit directly from them. (The extent to which the program has developed markets or replaced private expenditures with public funds is uncertain.) In addition, some critics note the possibility of duplication because the Department of Agriculture provides marketing funds through the Foreign Market Development Cooperator Program, administered by the Foreign Agricultural Service, and other activities. Many people also object to spending the taxpayers' money on advertising brand-name products.

Eliminating MAP, however, could place U.S. exporters at a disadvantage in international markets, depending in part on the amount of support provided by other countries. Responding to concerns about duplication, some advocates of MAP note that the program differs from other programs partly because it focuses on foreign retailers and consumer promotions. People promoting U.S. exports of high-value products consider the program useful for developing markets and benefiting the overall economy.